RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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June 4, 1997 **LETTER 1227**

OPENING COMMENT: For an old-timer like me, I can only describe the action of this market, the persistent rising trend, as "eerie." Does a comparison come to mind? The only comparison I can think of was the persistence of the 1973-74 market on the downside. During 1973-74 the decline was relentless. Those of us who lived through it said that it felt as though the selling would never end. The feeling here in the 1996-97 bull market is very much the same (in reverse, of course) in that it feels as though the buying will never end. But you know something -- it will.

As a matter of interest, the Dow is now selling at an incredible 59 times its dividends. The classic "rule" was that the market was in dangerous territory when the Dow was selling at 32 or more times dividends.

How important are dividends? *Market Logic* [(800)442-9000] states that $1 invested in the S&P starting in 1928 would have grown to $887 today in total return (which includes dividends). BUT if the S&P yield had remained at today's level, that same $1 would have grown to $167.

THE MARKET: Question: Russell, how will we know when this bull market is over and when a bear market has started?

Answer: Here's how. Through all the March-April weakness my Primary Trend Index refused to break down. To my mind, that was an extraordinary performance by the PTI. But somewhere ahead the PTI is going to turn down on a trend basis, break below its 89-day moving average, and continue down. When that happens, we will know we're in a bear market. Until then, the bull rules.

The **trend** of the stock market, historically, has been defined by the action and level of the D-J Industrials (although the broader S&P 500 Composite tracks amazingly close to that of the Dow).

So in a period such as 1997, when hundreds of lesser stocks have suffered substantial declines, as long as the Dow remains in a bullish trend, history will state that the bull market remained in force.

Historically, knowledgeable money, investment-grade money, tends to buy the large blue-chip stocks. These are the stocks with a long history of good earnings and a trend of stable or rising dividends.

Make no mistake about it, the blue-chips or investment-grade stocks set the trend. A **persistent rising trend** in the Dow will (in time) carry the rest of the market with it. This is doubly true when the Transports confirm a rising trend in the Industrials.

Conclusion -- we will not be able to identify a bear market until **(1)** the PTI decisively breaks down, and **(2)** the Dow and the Transports head south in earnest, **confirming each other** on the downside.

That combination hasn't appeared in many years. In fact, it's been so long since a true bear market has shown itself that many (a majority?) of today's analysts don't believe that a bear market is even a possibility. My readers know that I disagree. It may feel like it, but the bear is not yet an endangered species.

May 23 DJIA 7345.91; PTI 4883; A-D Ratio +4.40
May 30 DJIA 7331.04; PTI 4891; A-D Ratio +5.15
Dow Yield: 1.73%; Dow Price/Earnings: 18.4
Dow 144-day MA: 6722; Dow 34-day MA: 7130
Dow Times Book Value: 5.48; PTI 89-day MA: 4794
Percentage of Undervalued Blue-chips: 5%
Gold 144-day MA: 359

Question: So far in 1997 there have been 14 days in which the Dow has rallied or declined over 100 points. This amounts to high volatility. What's the meaning of high volatility and how does it affect price?

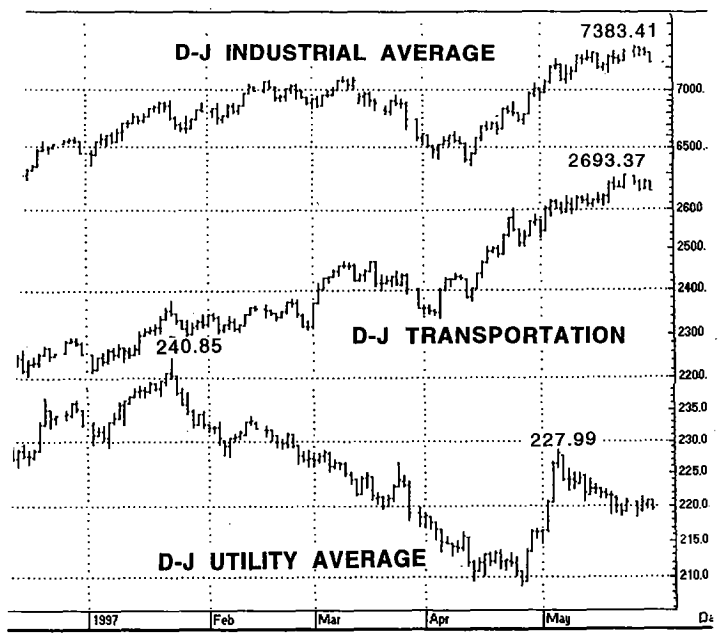
Answer: High volatility is a function of conflicting opinions plus a high degree of either excitement or nervousness. Commodity traders know that areas of very high volatility often (when seen in retrospect) give way to **trading ranges.**

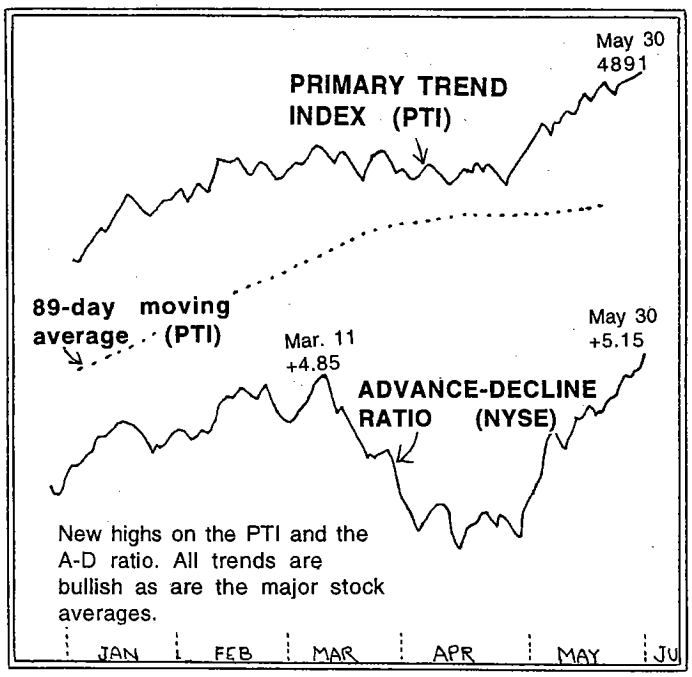
Actually, in the current situation, what we may be seeing is a broad trading range. Consider the S&P 500. The earlier high for the year occurred on February 18 at 825.95. Now, four months later and after many wild swings, the S&P 500 is at 850, less than 3% away. In other words, despite all the hysteria, there hasn't been a huge increase or decrease in the actual price of stocks.

Question: Russell, what do you make of the persistent strength in the Transportation Average?

Answer: The Transports have been the Average that has really been **powering** this bull market. Any chart of the Transports will reveal an "escalator" of rising lows, each low being above the preceding low. In the face of every and all periods of weakness in the Dow, the Transports have continued to plow ahead.

For this reason I feel that our eyes should be glued to the Transports. Since they have been "the strength of the market," when the Transports finally break down that could be, and probably will be, the signal that tells us that the bull is in trouble. The fact is that you can't have a bear market with the





Transportation Average refusing to confirm the Dow on the downside. And that's what's been happening over the last 12 months.

Comment of the Week: "Perhaps the most amazing aspect of this bubble is that the biggest winners have been the once prosaic **index funds.** The performance of the Vanguard Index 500 has beaten 96% of all professional money managers over the past three years. This has helped reinforce the increasingly popular belief that making money in the stock market is easy and virtually riskless. In our view, risk has never been higher. Consider, for example, that for the yield on the Dow to return to the 3% level that has traditionally constituted the warning of a market *top,* the Dow would have to retreat more than 3,000 points from its current level." (Courtesy of *Market Logic.*)

The **bonds vs. stocks** argument is now in full bloom. Columnist Steve Hank (*Forbes*, June 2) states, "We are knee deep in the errors of optimism. American consumers have witnessed a large increase in their paper wealth. This confidence-building wealth effect has underpinned a boom in consumer spending . . . When the profits spiral reverses, so will the rest of the recent pleasing patterns. Profits will cease rising and become squeezed. That will knock down the stock market, consumer confidence and the economy. Later this year consumers will pull in their horns, consumption will sag and business will slow . . . The ever-wise Sir John Templeton remarked to me last month that it is now time to switch from stocks to bonds. I agree." **Russell comment:** This sounds very logical, but there's that problem of timing -- personally I'd rather wait until my PTI turns down on a trend basis before buying long-term bonds.

SHORT INTEREST: There's a lot of confusion regarding the meaning of the short interest. A build-up of total short interest **within a primary bull market** is a very bullish phenomenon. It means that short sellers are aligned **in opposition to the strongest force in the market,** the primary trend. The implication here is that the rising tide of the market will, in time, force the majority of short sellers to cover. The primary bull trend squeezes the short sellers, and the covering action by short sellers accentuates the upward force of the primary trend (which is exactly what is happening today).

However, a short position, even a rising short position, **within a primary bear market** is an entirely different animal. A large short position within a primary bear market simply means that the short sellers are positioned **correctly in harmony with the primary trend.** In time, bear market short sellers will make money (that is, if they are not taken out by one of the periodic bear market rallies).

It boils down to this -- it is critical for the short seller to know **whether the primary trend of the stock market is bullish or bearish. Currently, it is bullish.**

Last week the NYSE announced that shorts had risen to a record 3.28 billion shares, while the Amex announced that its shorts had risen to a record 158 million shares.

IS THIS EUPHORIA? The *Christian Science Monitor* (May 21) provides a "Good News" list. And the news is very good, the economy is good, there's no war on the horizon, consumer confidence has risen to a new all-time high, and it seems to me that euphoria reigns amid a stock market that won't go down.

My old friend, Joe Granville, sees a new era, and in his latest report Joe predicts, *"In my May 1st letter for the first time I published my Dow projection of 12,000-14,000 between now and the start of the year 2000. Stop worrying about the rest of 1997, all of 1998 and all of 1999. Spread out, get more aggressive, buy all the dips, and look forward to the year 2000. There is something out there that is so positive, so catching, and this time it will go further and last a great deal longer than any of the bears thought possible."*

Russell comment: I never pooh-pooh the market or a fellow market writer. And I've wondered if there aren't changes ahead that are so enormous, so breath-taking, so bullish that this market is simply moving up to discount the "marvelous new world" of the year 2000 and beyond.

Of course there's another possibility -- it's that the market is caught in one of those rare eras which is characterized by "popular delusions and the madness of crowds." At this point we simply don't know and very frankly there is no way of knowing.

As I've written so many times before, there are two ways of dealing with the market: (1) on the basis of what's actually happening, and (2) on the basis of what we think should or could be happening.

Personally, I prefer treatment number 1, and for this I use my study of the Averages plus the action of my PTI. The fact is that as this is written, both the Averages (under Dow Theory) and the PTI are bullish. But as for Joe's prediction of 12-14 thousand, I dunno, I have trouble seeing that far ahead.

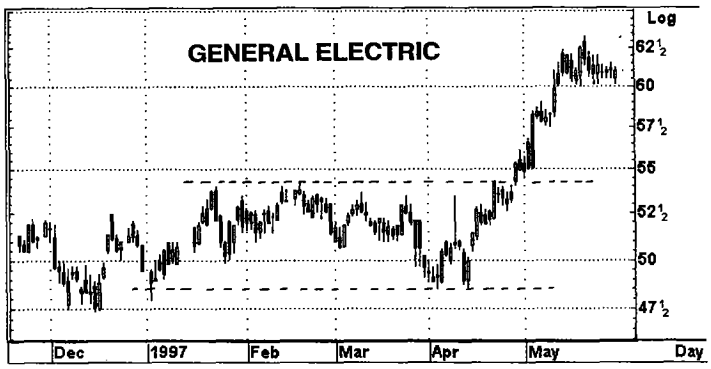
One thought does occur to me, and it has to do with the short interest on the NYSE. The short interest is at new record highs. Allowing for all the hedging and manipulation, it's clear that the **short sellers still have not capitulated.** And I wonder, will there be a final upward explosion, an incredible, mind-blowing straight-up spike which will serve to drive millions of shorts to the wall -- only to be followed (as the tide turns) by a crash and the beginning of one of the most persistent, costly, and vicious bear markets in Wall Street history? Yes, that record short interest in a bull market that refuses to correct has me wondering.

INVESTMENT POSITION: The bull is clearly in the box. Day after day the market has been given every chance to decline -- but day after day buying comes in and the market ends higher. The urge to own equities here in 1997 is overwhelming -- frankly, I've never seen anything like it.

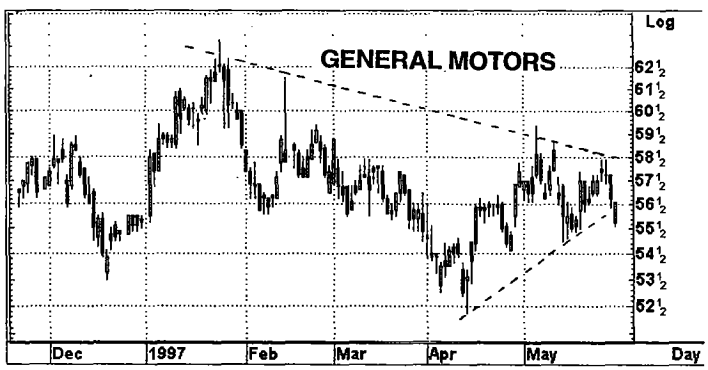
Templeton says it's time to buy bonds. Is it? Well, bonds at near 7% against stocks at 1.68% makes you pause, makes you think. At these levels, stocks only make sense if they continue to go up; they don't represent values.

If Joe Granville is correct then stocks are the place to be. If value concepts are correct, stocks are not the place to be. Me, I'm patient, and I never liked buying stocks because they're "supposed" to go up. My advice -- buy two-year maybe out to five-year T-notes, wait, relax, be patient, and see what develops.

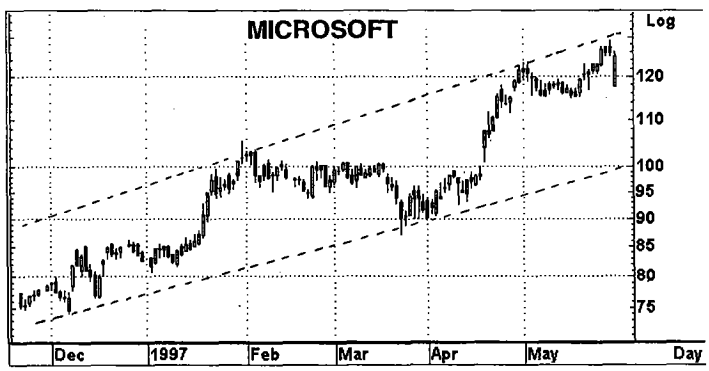
CHARTS: I want to show what I consider four "key" charts here. The first is **GE**, a company so huge and so varied that it represents literally a cross-section of the entire US economy. GE is the first corporation in US history to be valued by the market at over $200 billion. The chart shows a breakout from a long consolidation area, pretty much what most of the blue-chips have been doing.



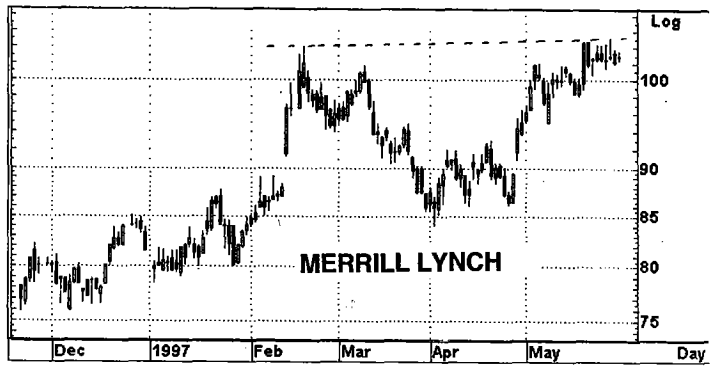
Next I show **GM**, which is the world's largest manufacturing company. GM hit an extreme intra-day high of 63 3/4 on January 24. It then plunged to an extreme intra-day low of 52 1/4 on April 14. Since then GM has recovered, but not by much. Currently, GM is back in the 56-58 area. Problem -- there's a sea of two and three-year old cars for sale in the used car market. Weak used car prices affect the sale of new cars. The old "rule" is that if GM doesn't hit a new high within a six month period, the stock market is a sale. That means we need a new GM high by the end of July. But that's the old rule.



Microsoft has to be the glamour stock of the 1990s. The stock is selling at more than 52 times earnings. MSFT was 41 in January 1996. Since then it has advanced to the 120s. MSFT is the stock that everybody watches. Its CEO, Bill Gates, is the world's richest man (as we hear almost daily). If or when MSFT runs into trouble, it's probable that the whole market will be in trouble. You can't kill the king.



Finally, I'm showing a chart of **Merrill Lynch**, the largest brokerage house in the nation. Historically, Wall Street is super-sensitive to coming prosperity or the lack of it. Which is why MER can be considered a stock market bellwether. MER hit an intra-day high of 104 on Feb. 19. It then dropped into the mid-80s, to be followed by another rally. By last week MER was back in the area of its high at 103. OK, now are we seeing a double top or a consolidation? Can't tell yet, but this is a stock everyone should watch.



NOTES & QUOTES: The slide in both the CPI and the PPI has stumped the experts, particularly since this has occurred with the CRB Commodity Futures Index in a definite uptrend and with a tight labor situation in the US. My answer: over-production in Asia has lead to a loss of pricing power here. In other words, the goods from Asia are coming in so fast and so cheap that wholesalers and retailers here can't raise their prices. Of course, this doesn't apply to commodities, many of which have been surging. (Have you had a $3.75 cup of "designer coffee" lately?)

* *

What's the Fed thinking about? They're thinking that they'd like the economy and the stock market to stabilize. But isn't the Fed supposed to worry about the dollar and inflation, not about the stock market? Yeah, right. An article in the May 23 *WSJ* tells an interesting story. After avoiding another rate increase, the article noted that "a few members of the policy committee, who aren't identified in the summary, argued that a larger rate increase 'was needed . . . to provide a better calibrated response to the persistent strength of the economy and the related risk of intensifying inflationary pressures.'" Ah yes, and the *WSJ* piece continues, "But the majority argues for 'a cautious approach,' partly because a major shift in Fed policy can sometimes have 'exaggerated effects in financial markets.'" **Russell translation:** Historically, once the Fed announces a first rate increase it almost always follows with additional increases. The market knows this, and the Fed wanted to sever this line of thinking, implying that the first rate increase might be the last one. So the Fed (read Greenspan) was fearful that a second rate increase would knock this sky-high market to its knees. Make no mistake about it, Greenspan knows the market is HIGH -- and he's just as afraid of a stock market collapse as he is of an increase in inflation. Right now Greenspan's willing to bet on the side of "no inflation," rather than take a chance on a stock market collapse (for which he almost surely would be blamed).

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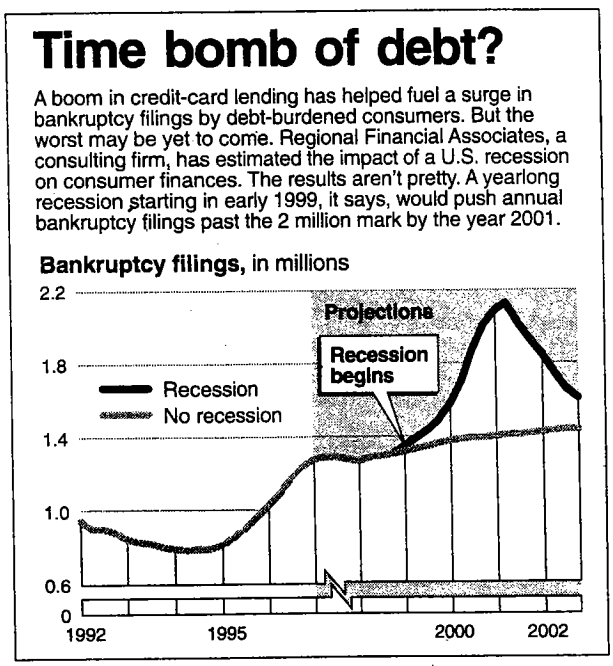
For months I've been saying that the government's claim that the cost-of-living statistics are "too high" is just a phony way of cutting government expenses. Steve Forbes to the rescue (his editorials in *Forbes* magazine are a breath of fresh air). Mr. Forbes (June 2) writes that the move to adjust the CPI downward is "fallacious, economically and politically . . . Some economists assert that the CPI overstates increases in the cost of living. Trouble is, these worthies ignore the fact that the CPI leaves out two of the biggest cost of living items: income taxes and payroll taxes. Taxes aren't a cost of living?!?"

Some real-life comparisons: U2 concert ticket: 1987 -- $19; 1992 -- $30; 1997 -- $52. Average B'way show ticket: 1987 -- $29.65; 1992 -- $39; 1997 -- $45.97. No. 1 fiction hard cover: 1987 -- $18.95; 1992 -- $23; 1997 -- $25. Average movie ticket: 1987 -- $3.91; 1992 -- $4.15; 1997 -- $4.41.

* *

Is there any potential crack in this most perfect of all economies? There is one, thinks Mark Zandi, chief economist for Regional Financial Associates, a forecasting firm. Zandi thinks the potential weakness is **consumer credit,** and he thinks that in time this will hit the banks as bankruptcies soar to new record highs. For the past two years credit card delinquency rates and personal bankruptcy filings have surged. Credit card holders have been bingeing, and in '95 alone the banks issued 35 million credit cards, more than the entire population of Canada. Most of the debt is held by lower income families, families that could not withstand a recession. At any rate, this chart shows the number of bankruptcy filings -- and the projections. The gray line shows the projections, which are heading for new records even without a recession. The black line shows bankruptcy projections with a recession. Conclusion: Zandi is projecting over 2 million bankruptcies for the next recession.


Time bomb of debt?
A boom in credit-card lending has helped fuel a surge in bankruptcy filings by debt-burdened consumers. But the worst may be yet to come. Regional Financial Associates, a consulting firm, has estimated the impact of a U.S. recession on consumer finances. The results aren't pretty. A yearlong recession starting in early 1999, it says, would push annual bankruptcy filings past the 2 million mark by the year 2001.
Bankruptcy filings, in millions
2.2
1.8
1.4
1.0
0.6
0
Projections
Recession begins
Recession
No recession
1992
1995
2000
2002

* *

He's Mobutu, ex-president of Zaire, but his full name is Mobutu Sese Seko Kuku Ngbendu Waza Banga. That translates into "the fearless warrior who will go from strength to strength leaving fire behind in his wake." Mobutu is suffering from advanced prostate cancer and may not live much longer. This corrupt dictator ruled Zaire for 32 years, and his story is one of venality, corruption, cruelty and extreme eccentricity. Over the years Zaire has received billions in aid, and Mobutu grabbed roughly $4 billion of it. He has nine properties in Brussels, an apartment in Paris, a Cap Martin home, an 18,000-square-foot home in Portugal which houses his 14,000 bottle collection of wines, plus much, much more. The question is who will grab what now or when Mobutu dies and whether various nations will reveal what the dying dictator owns? Meanwhile, the Swiss (under pressure from the Nazi gold scandal) have deepened a freeze on Mobutu's assets.

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The Clintons are broke or worse. In their annual financial disclosure, it turns out that they have assets of at least $761,000 in bank accounts, savings bonds, blind trusts and life insurance policies as well as stocks held in Chelsea's name. But they owe far more in Whitewater related legal fees. Clinton's legal defense fund reported in February that the law firm of Williams & Connoly filed bills for $2.8 million (against which the Clintons paid $695,000) and the Clintons owe the law firm of Wright, Lindsey and Jennings $52,000.

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The current issue of *Vanity Fair* has an excellent article on Larry Ellison, CEO of Oracle. Ellison's obsession is to defeat Bill Gates, and he thinks he can do it. Last week Oracle and Netscape Communications announced that they will combine their network computer units in what is seen as a move to counter recent Microsoft actions. The Oracle/Netscape union will develop software for devices other than personal computers, including TV and telephones. Ellison's other ambition is to take over Apple (he thinks the Apple system is the superior system).

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The effects of the dumping of affirmative action are apparent. The *Washington Post* reports that black and Hispanic admissions to the freshman classes at UCLA and Berkeley dropped a huge 80%. At the Univ. of Texas admissions to the law school are down 85%.

* *

Warren Buffett quit the University of Pennsylvania's Wharton School because he didn't think he was learning anything (Gates did the same at Harvard). Buffett then enrolled at the University of Nebraska (Lincoln campus) where he earned his BS. Buffett then applied to Harvard but was rejected (I'll bet the treasurer of Harvard is kicking himself). Instead, Buffett went to Columbia where he earned a MS in economics in 1951. At Columbia, Buffett studied under famed Professor Benjamin Graham. Graham became Buffett's mentor and it was Graham's thinking on valuations that laid the basis for Buffett's current fortune of $18 billion (which is his share of Berkshire stock). If Harvard had not turned Buffett down and Buffett had not entered Columbia and met Graham (Buffet later worked for Graham), there would probably be no Berkshire Hathaway today. Does Buffett believe in the "efficient market" theory (a theory which states that markets and stocks are efficient and are always about where they should be)? Said Buffett, "I'd be a bum on the street with a tin cup if the markets were always efficient."

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If the medical world ever announces that EDTA chelation can remove the plaque from the body's vascular system, it will set off one of the biggest scandals in medical history. Why? Because such an admission would mean that tens of thousands of by-pass operations and angioplasties could have been avoided, and that billions of dollars that were spent on these operations could have been avoided.

The following may be more important to perhaps 10% to 20% or more of my subscribers than even the process of making money, so here goes. My son-in-law, Mike Doering, is an inspector with the Division of Occupational Safety and Health, State of California. Mike's been disinterested in chelation, but last week he called me to say that in doing some research on toxicity he'd come upon the subject of metal chelation and he was excited about what he'd read. Mike sent me the (June) *Johns Hopkins Medical Letter,* and he underlined the following: "When calcium -- the body's most abundant mineral -- circulates through the body, it is deposited in bones where it is welcome. But for unknown reasons it may collect in the arteries, where it's decidedly unwelcome. There it 'stiffens' blood vessels, contributing to arteriosclerosis. Autopsy studies show a high correlation in the coronary arteries and the severity of CAD (coronary artery disease). **Russell comment:** OK, calcium build-up can cause CAD and eventually heart attacks or strokes. This is well-known.

Next, Mike sent me excerpts from the authoritative "Casarett and Doull's Toxicology, the Basic Science of Poison." Excerpts: "It is obvious that calcium is only one of the many metals that compete with toxic metals in the body . . . Chelating agents are generally nonspecific in regard to their affinity for metals. To varying degrees, they will mobilize and enhance the excretion of a wide range of metals, including essential metals such as calcium and zinc. Their efficacy depends not solely on their affinity for the metal of interest, but also on their affinity for endogenous metals, mainly CA (calcium), which compete in accordance with their own affinities for the chelator."

Translation: A build-up of calcium in the blood vessels can lead to arteriosclerosis and later to heart attacks or strokes. **Chelation can remove calcium**, which, by the way, is considered (and this surprised me) a type of metal. **Conclusion:** To me, it's incredible that the medical profession has refused to pursue a serious investigation of EDTA chelation therapy. To me it's even more incredible that the insurance companies, who are shelling out billions of dollars for heart operations, don't do a serious investigation of EDTA chelation. I firmly believe that this will be the basis of a **future major medical scandal.** In the meantime, I suggest that subscribers who have or are in danger of having heart trouble go to a health food store and buy a book on chelation or call (800)728-2288 and order "The Chelation Answer." Note: the treatment of arteriosclerosis constitutes a huge industry. Many hospitals survive on heart operations. Chelation is cheap, costing $75 to $100 a session (you may need 10 to 30 sessions). A full treatment of chelation costs $750 to $3,000 vs. up to $65,000 or more for a heart operation. Who wants to investigate chelation? So far, no broad studies, only negative blurbs from the medical profession.

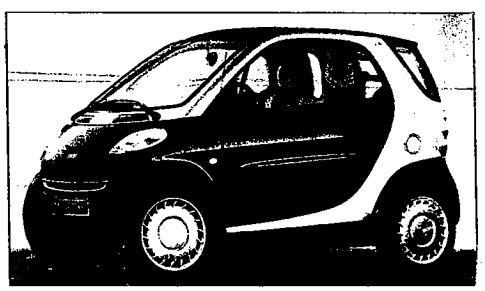
* *

You think the medical profession isn't interested in money? Then read the current (June 9) issue of *Fortune:* "Why Doctors' Aren't Curing Ulcers." The scandalous answer is that it has been proved that most ulcers are caused by a bacterial infection, yet instead of using effective antibiotics many doctors are still using anti-acid methods. *Fortune's* scandalous conclusions: **(1)** "A young Australian doctor stumbled on the true cause of ulcers two decades ago. Instead of becoming a hero, he was mocked and his findings ignored. Today doctors and drug companies still aren't giving patients the cure." **(2)** "Doctors' habits don't change until you have a pharmaceuticals company with a financial incentive to change them."

* *

Fifty-two years ago the Germans were trying to shoot me out of the sky (with their super-accurate radar-directed 88mm. guns), and back then if anybody had told me that some day I'd be a buyer of German cars I'd have called him a liar or worse. But half a century has gone by, and emotions soften, and today I'm a confirmed Mercedes fan. I think Mercedes are the best cars on the market. Evidently I'm not alone. Daimler-Benz reported last week that their own employees ordered 50,000 of the new A-class cars, almost double the number of the compact it plans to produce this year. Daimler employees receive a 21.5% discount on new cars; the tear-shaped A-class carries a list price of $17,654. The Benz employees have seen the new car, and obviously they like it.

More news: Mercedes is joining with Swatch to produce a Smart car that will cost around $9,300. The car will be a little two-seater item with a three-cylinder engine that will move the car from zero to 60 in 6.6 seconds. It will have a 26-foot turning radius making it a dream for city parking. Get this -- for an additional $700 the car will have plastic panels which will change the car's color to taste.



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Help! The new sequel to "Jurassic Park" has T. Rex wrecking the fair city of San Diego. In *Newsweek's* review of the flick it states that "the only interesting thing in San Diego is the famous zoo." C'mon, San Diego may not have Madison or Fifth Avenues, but people smile as they walk through the streets here. And they don't live in terror of rent laws being changed. And here in San Diego we have 350 days of sun and warm weather.

* *

Remember New Orleans District Attorney Jim Garrison, the guy who liked needling the government with his Kennedy assassination theories? Well Garrison died, but now his estate in a class-action suit is suing the seven major movie studios and the Motion Picture Assn. of America, accusing them of conspiring to systematically cheat motion picture participants of their money. The suit challenges the so-called "net profits" arrangement of the studios. Garrison vs. Warner Bros. stems from the fact that Oliver Stone's "JFK" grossed more than $150 million, yet according to the studio the movie generated no profits. And it's true, by studio accounting methods few movies ever show a profit. In February a US appellate court cleared the way for any one who has a contingent compensation contract with the majors since 1988 to join the suit, which was filed in 1995. The suit is open to about 10,000 writers, directors and actors. Good luck, guys. So far, the only way to make money on a movie is on salary or with a percentage of the gross. As a percentage of profits, forget it, there never are any profits.

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Notes from Gotham: Last week Faye and I went on a whirlwind four-day trip to NYC -- I wanted to talk to a few of my old stock market friends, and I also went to my (gulp) 55-year high school class reunion. As to the reunion, out of a class of 100 only 18 of us made it. The rest were too far out of town, broke, dead, killed in the war, too tired to make it or just plain disinterested.

We dined at three top restaurants: the brand new Le Cirque (place is spacious, pretty, food surprisingly mediocre), next at the La Granouille (over-priced and food fairly good, arguably the prettiest restaurant in NYC), then at La Cote Basque -- best food of the three, really a bargain (dinner at $59 price fixed). Our favorite lunch place -- the upscale Japanese noodle shop, Ryoyu, at 10 East 52nd Street (try it, you'll like it). As for NYC, the place is more crowded than I've ever seen it (does anyone still speak English in NYC?). Fifth Avenue at 6PM was mobbed, thousands of people walking, sight-seeing, smoking, bumping into each other. Actually, the City is cleaner than I've seen it in decades, few vagrants, and the feeling is that it's safe even at night (visitors are now going to Harlem). We walked down Broadway Saturday night, choking with people, many kids in groups sight-seeing or just hanging out. Times Square looks a little better than in the old days but it's still a neon mess, although the porno shops are gone as are the pimps and hookers. We stayed in what I think is the best hotel in NYC, the St. Regis on 55th Street off Fifth Avenue. Best and prettiest store in NYC (at least for women) is Bergdorf Goodman. The uptown Barney's, I think, is beautiful, but we didn't see many shoppers there (it's probably too upscale, too intimidating). Overall feeling while in NYC -- everybody is beating their brains out to make money -- the accent is on money, materialism -- buying. The plane ride back (American) was a nightmare -- the plane was delayed so we missed our connection in Dallas, waited two hours for the next one, but that one was also delayed. Total time from NYC to San Diego -- 11 hours. Conclusion -- **(1)** NYC is for making money and spending money, not for living (unless, of course, you've got BIG bucks); **(2)** never fly anyplace where you need to make connections; **(3)** if you have to know what it's like in NYC or Tokyo or Rome, rent the video -- it's easier, more pleasant and you'll save a fortune. (P.S. -- would you believe it, I don't like traveling.)

Warren Buffett on NYC: "I've lived in New York and Washington, but the logistics of New York take a lot of time. I can get the pluses of New York and Los Angeles by getting on a plane and flying for three hours, but I pay no penalty to live there . . . I think it is a saner existence here (Omaha). I used to feel, when I worked back in New York, that there were more stimuli just hitting me all the time, and if you've got the normal amount of adrenaline you start responding to them. It may lead to crazy behavior after a while. It's much easier to think here."

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Tom Werner, after wrecking the San Diego Padres and then selling them to John Moores (the present fine majority owner), states, "It's unlikely an individual can own a sports franchise anymore -- too

much tough competition. It makes sense that News Corp., like the Chicago Tribune (which has the Cubs), should be an owner. It's a natural for a communications company." **Russell comment:** Rupert Murdoch wants to buy the LA Dodgers. It won't happen if Ted Turner (who owns the Atlanta Braves) can do anything about it. Turner hates News Corp.'s CEO, Rupert Murdoch, with a passion. But money talks, we'll see.

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Try this one on for size. Ralph Lauren (Polo) will issue 29 million shares of class A stock which is figured to go at 22 to 25 a share. Not a penny of the offering will go to the company -- the bulk will go to Lauren personally ($396 million of it), $203 million will go to pay off loans to Lauren himself and to Goldman Sachs and $140 million of bank debt. And after the offering, the Lauren family will still retain an 89.8% voting control. The stockholders will get zilch. **Russell comment**: If the deal goes through, the Lauren stock would sell for about 29 times earnings. Is this a great bull market or what!!

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The latest *Forbes* mag. had an interesting article on handling stress. This from Wayne Brothers, President of Teledyne Water Pic: "The stress we feel is different from what our parents dealt with. My father was a TV repairman for Sears. Maybe two times in his 30-year career did electronics change so significantly that he had to change the way he did his job. Now we're talking about those types of changes somewhere in the five-year range. You're constantly in a relearning mode, always trying to catch up." **Russell comment:** To me, the greatest job-related stress is working at a company you don't like or doing work you don't like. If you like the setting and you like what you're doing, it's more fun than work and stress is usually low. Also, there's a difference between stress and tension. Zeroing in on a great deal can be tense, but the tension is just a form of normal excitement. Stress to me connotes a situation which is negative, where there are conflicting emotions (for instance, I hate this job but I like the money, or I can't stand my husband, but I'm staying for the sake of the kids).

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When the war ended in Europe (V-E day) my B-25 medium bomber crew was immediately given orders to fly back to the States. We were given a 30-day leave, after which we were slated to transfer to the newer, faster A-26 bombers and from there (following our combat in Europe) we were to go into combat in the Pacific. I was thinking, "I survived Europe, now what's my chances of surviving the Pacific as well? Not that great."

Then came the atomic bomb, and Japan surrendered. Being on leave in NYC at the time, I was one of the first to be released from the Army Air Corp. Two days after being released, I went to Columbia University (my father was a Columbia graduate) and applied for admission (I had already had one year at Rutgers in 1942, but I wanted to stay in NYC because I hadn't seen my parents in years).

Columbia's admission office gave me a bunch of forms, stated that I had to wait a month or more, and gave me a further batch of baloney. Disgusted, I went to New York University. The Director of Admissions asked me (I was then 21) what I'd been doing. "I told him I'd been busy dropping bombs on Germans." He asked me to fill out the usual forms, and told me I was now admitted. I got my BA from NYU 2 1/2 years later, and I have been a NYU rooter ever since (of course, I'm also thankful for the GI bill, the greatest boost in US education in history).

Since the mid-40's, NYU has done nothing but climb in academic excellence. Its law school, medical school, business school, liberal arts schools are among the very tops in the nation. This from the *NYU Today* publication, which I just received, *"We have received a record number of undergraduate applications -- 21,500. We expect the fall 1997 freshman class to be the most academically talented in our history. Some 440 applicants boast SAT scores of 1500 or better (out of a possible 1600), which places them in the top two-tenths of one percent of all SAT takers nationally."* **Russell comment:** NYU, a great university and getting greater year after year.

GOLD: I'm going to concentrate on the gold shares now, rather than the metal (which is doing very little). Every once in a while an item moves into a situation where it's in position to give an important bullish or bearish signal. I think gold stocks are there now. The signal, **IF** it arrives, will come from XAU, the Phila. Gold/Silver stock Average.

The daily chart tells the story. Back on May 12 the XAU hit an intra-day high of 108.74, closing at 106.78. So here's what to watch for -- a XAU intra-day high at 109 or a XAU close at 105 or better.

XAU is holding above its rising 34-day moving average, which now stands at 102 -- and it is important that XAU continues to hold above that level. An **important bull signal** would occur IF XAU can better its May 12 closing high of **106.78.** The 144-day MA for XAU stands at 109.

Franco Nevada (Toronto) is now flirting with its high. American Barrick is ready to break out at 26.

LATE NOTES on "the market that can never go down." As this is written, the T-bond futures are flirting with their recent May 15 peak of 110 12/32nds (although they are not yet above that high). Declining rates, of course, are a strong bullish factor in the market.

The dollar has turned strong again -- this in the face of the shocking French election (the French want jobs, not more stringent economics). Meanwhile, Germany (running fat deficits) uses a gimmick of revaluing its gold hoards. All this raises more questions about the Euro, the long-promised "single currency." Will the Euro come into being, and if so will it be able to **compete** with the dollar? German and French problems suggest a weaker Euro (and a stronger dollar).

Fed Chairman Greenspan has probably been working on a new definition for "irrational exuberance." (Greenspan used that expression hundreds of Dow points lower, remember?) Of course, Greenspan has no experience with a bull market like this one. No one has.